



# ***Standard Administrative Policy And Procedures Manual***

Title: Financial Policy  
Section: Investment Policy

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## **SECTION I – POLICY**

A. It is the policy of the City of Ankeny to invest public funds in a manner that will provide the highest investment return while maintaining maximum security and meeting cash flow needs. This investment policy is intended to comply with Iowa Code Chapters 12B and 12C which govern the investment of public funds. The investment of bond funds or sinking funds shall comply not only with this investment policy but also be consistent with any applicable bond resolution.

B. The purpose of this investment policy is to set investment objectives, establish guidelines, and define responsibilities for the investment of funds. Each investment made pursuant to this policy must be authorized and invested in accordance with state law and this investment policy.

## **SECTION II - SCOPE**

A. This investment policy applies to all funds and investment transactions of the City of Ankeny. These funds are accounted for in the City of Ankeny's Comprehensive Annual Financial Report and include:

1. General Fund
2. Special Revenue Funds
3. Debt Service Fund
4. Capital Project Funds
5. Enterprise Funds
6. Trust and Agency Funds
7. Internal Service Funds
8. Any new fund created by the City of Ankeny, unless specifically exempted

B. Except for cash in certain restricted and special funds, the City of Ankeny may consolidate cash balances from funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be

allocated annually to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

### **SECTION III – PRUDENCE**

A. The Finance Director and other authorized staff of the City of Ankeny, when investing or depositing public funds, shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a person acting in a like capacity and familiar with such matters would use to attain the City's investment objectives. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

B. The Finance Director and other authorized staff shall utilize competitive bidding for investments where it is prudent to achieve a greater rate of return so long as it does not conflict with the investment objectives stated below. A request for competitive investment proposals should include a request for comparable credit and term investments from a minimum of two investment providers.

### **SECTION IV – OBJECTIVES**

A. The primary objectives, in priority order, for the City of Ankeny's investment activities shall be safety, liquidity, and yield:

1. Safety: Safety and preservation of principal in the overall portfolio is the foremost investment objective. The objective will be to mitigate credit risk and interest rate risk by following the guidelines listed below.
  - a. Credit risk is the risk to an investor that an issuer will default in the payment of interest and/or principal on a security. The City of Ankeny will mitigate credit risk by:
    - i. Limiting investment purchases to those listed in Section IX of this policy.
    - ii. Pre-qualifying the financial institutions, brokers, dealers, and advisors with whom the City will do business.
    - iii. Diversifying the investment portfolio by agency and issuer so that potential losses on individual securities can be minimized.
  - b. Interest rate risk is the risk that the market value of securities in the portfolio will fall due to the changes in market interest rates. The City of Ankeny will mitigate interest rate risk by:

- i. Structuring the investment portfolio so that securities mature to meet cash requirements for operations, thereby avoiding the need to sell securities in the open market prior to maturity.
  - ii. Purchasing investments with the intent to hold until maturity.
  - iii. Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with Section XV of this policy.
- 2. Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.
- 3. Yield: The portfolio shall be designed with the objective of attaining a reasonable rate of return through budgetary and economic cycles. The return on investments is to be accorded secondary importance compared to the safety and liquidity objectives described above. The core of investments will focus on relatively low risk securities with an expectation of earning a reasonable return relative to the risk being assumed. Securities shall not be sold prior to maturity, with the following exceptions:
  - a. A security with declining value may be sold early to minimize loss of principal.
  - b. A security may be exchanged to improve the quality, yield, or target duration in the portfolio.
  - c. A security may be sold to satisfy cash flow demands.

## **SECTION V – DELEGATION OF AUTHORITY**

A. In accordance with Section 12B.10(1) of the Code of Iowa, the responsibility for conducting investment transactions resides with the Finance Director. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials and their procedures in the absence of the Finance Director. The designee shall act in accordance with the established policies and internal controls set forth in this investment policy.

## **SECTION VI – INVESTMENT PROCEDURES**

A. The Finance Director shall establish written investment procedures consistent with this investment policy for the operation of the investment program. Procedures should include

references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, banking service contracts, internal controls, depository agreements, daily cash flow review, basis for awarding bids, authorized personnel, and portfolio inventory. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.

## **SECTION VII – ETHICS AND CONFLICTS OF INTEREST**

A. Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees shall disclose any material financial interests in financial institutions with which they conduct business, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the investment portfolio.

## **SECTION VIII – AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

A. The Finance Director shall maintain a list of financial institutions authorized to provide investment services. In accordance with the Code of Iowa, this list will state the maximum authorized amount allowed in each institution and must be approved by City Council. In addition, a list will also be maintained of approved brokers/dealers selected by creditworthiness who are authorized to provide investment services in the State of Iowa. These may include “primary” dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

B. All financial institutions and brokers/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following:

1. The firm’s audited financial statements, provided annually.
2. Proof of the firm’s State of Iowa securities sales license.
3. Copy of the broker’s license for the individuals servicing the account.
4. Completed broker/dealer questionnaire (see Appendix B of this policy).
5. Certification of having read and understood and agreeing to comply with this investment policy.

The Finance Director will conduct an annual review of the financial condition and registrations of qualified bidders. Financial institutions and brokers/dealers shall not be compensated based on investment performance.

## **SECTION IX – AUTHORIZED AND SUITABLE INVESTMENTS**

A. The City of Ankeny is empowered by Section 12B.10(5), Code of Iowa, to invest in the following types of securities:

1. U.S. Treasury obligations which carry the full faith and credit guarantee of the United States Government and are considered to be the most secure instruments available.
2. U.S. Government agency and instrumentality obligations that have a liquid market with a readily determinable market value.
3. Certificates of deposit and other evidences of deposit at federally insured depository institutions approved pursuant to Chapter 12C, Code of Iowa.
4. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor of AA-Am-G, AAA-m, or AA-m, and if rated by Moody's, rated Aaa, Aa1, or Aa2.
5. Savings accounts, deposit accounts or money market deposit accounts which are insured by the FDIC and protected from losses by the State Sinking Fund (see Section XII).
6. Commercial paper that matures within two hundred seventy (270) days and that is rated, at the time of purchase, "Prime-1 (P1)" by Moody's and "A-1" or better by Standard and Poor's, provided further that at the time of purchase, no more than ten percent of the investment portfolio shall be in investments authorized by this paragraph, and that at the time of purchase, no more than five percent of the investment portfolio shall be invested in the securities of a single issuer.
7. Repurchase agreements whose underlying collateral consists of the investments in obligations of the United States Government, its agencies and instrumentalities, if the political subdivision takes delivery of the collateral either directly or through an authorized custodian. Repurchase agreements do not include reverse agreements.
8. A joint investment trust organized pursuant to Chapter 28E, Code of Iowa, prior to and existing in good standing on the effective date of this Act or a joint investment trust organized pursuant to Chapter 28E, Code of Iowa, after April 28, 1992, provided that the joint investment trust shall either be rated within the two highest classifications by at least one of the standard rating services approved by the Superintendent of Banking by rule adopted pursuant to Chapter 17A, Code of Iowa, and operated in accordance with 17 C.F.R. Section 270.2A-7, or be registered with the Federal Securities and Exchange Commission under the Federal Investment Company Act of 1940, 15 U.S.C. Section 80(a), and operated in accordance with 17 C.F.R. Section 270.2a-7. The manager or investment advisor of the joint investment trust shall be registered with the Federal Securities and Exchange Commission under the Investment Advisor Act of 1940, 15 U.S.C. Section 80(b).

B. The Finance Director is not required to invest in all of the investment options authorized in this policy. Selection will be based on cash flow characteristics, exposure to market risk, rate of return, the technical ability of the staff responsible for administering the program, and the availability of time and tools for staff to engage in conservative but effective management.

C. Prohibited investments, according to the Code of Iowa, Section 12B.10(5) are reverse repurchase agreements, futures, and options contracts.

D. Prohibited investment practices:

1. Trading of securities strictly for speculation of the realization of short-term trading gains.
2. Entering into a contract providing for the compensation of an agent or fiduciary based upon the performance of the invested assets.
3. If a fiduciary or other third party with custody of public investment transaction records of the City of Ankeny fails to produce records within a reasonable time requested by the City, the City shall not purchase new investments with or through the fiduciary or third party, and shall not renew maturing investments with or through the fiduciary or third party.

## **SECTION X – MASTER REPURCHASE AGREEMENT**

A. A repurchase agreement is a contractual transaction agreement between an investor and an issuing financial institution. The investor exchanges cash for temporary ownership or control of collateral securities with an agreement between the parties that on a future date, the financial institution will repurchase the securities. A signed master repurchase agreement shall be on file with the financial institution with which repurchase transactions are made.

B. The master repurchase agreement must include the following provisions:

1. The underlying collateral shall be limited to the United States Government, agency and instrumentalities.
2. Collateral shall be marked to market daily by the custodian and shall be maintained at a value equal to or greater than the cash investment.
3. At the time of purchase, the market value of the collateral shall represent 102% of the cash investment.
4. An authorized third party custodian or safekeeping agent shall hold all securities purchased under a repurchase agreement.
5. A seller of repurchase securities shall not be entitled or authorized to substitute collateral, except as authorized by the Finance Director.
6. Retail repurchase agreements and reverse agreements shall not be authorized for purchase.

## **SECTION XI – INVESTMENT POOLS/MUTUAL FUNDS**

A. Government-sponsored pools and mutual funds are sources for short-term cash management. The pool/fund must meet the requirements of Section 12.B10(5)(g), Code of Iowa, and must contain only the types of investments allowed by this policy. A thorough investigation of the pool/fund by the Finance Director is required prior to investing and on a periodic basis. A questionnaire will be utilized that will address the following general topics:

1. A written statement of investment policy and objectives.

2. A description of eligible investment securities.
3. A description of interest calculations and how it is distributed, and how gains and losses are treated.
4. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
5. A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
6. A schedule for receiving statements and portfolio listings.
7. A description of how reserves, retained earnings, etc. are utilized by the pool/fund.
8. A fee schedule, and when and how it is assessed.
9. Whether bond proceeds are eligible and acceptable for the pool/fund.

## **SECTION XII – STATE SINKING FUND**

A. Section 12C.25 of the Code of Iowa created the state sinking fund to protect public funds on deposit in Iowa banks, savings associations, and credit unions. This is in addition to Iowa Code, Chapter 12C.22(2) which requires Iowa banks to pledge collateral for public deposits equal to or in excess of the total amount by which the public funds deposits in the bank exceeds the total capital of the bank.

B. Section 12C.23A describes the procedures that the State Treasurer of Iowa would implement if a bank were closed. The following are the levels of protection in order:

1. The Federal Depository Insurance Corporation (FDIC) insures all public deposits up to \$250,000 through December 31, 2013. On January 1, 2014, the coverage is scheduled to return to \$100,000 per depositor, per insured bank, for all account ownership categories utilized by the City.
2. Secondly, assets of the closed bank are liquidated to cover losses.
3. Next, monies in the state sinking fund are distributed to entities that had deposits with the closed bank.
4. If the balance in the sinking fund is inadequate to pay the entire loss, then the State Treasurer shall obtain the additional amount needed by making an assessment against other banks whose public funds deposits exceed deposit insurance coverage.

## **SECTION XIII – SAFEKEEPING AND CUSTODY**

A. All trades of marketable securities, including collateral for repurchase agreements, will be executed by delivery-versus-payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. A third party custodian will hold securities, with evidence being safekeeping receipts. The Finance Director is responsible for confirmation of transactions for investments and wire transfers. All investment officials shall be bonded to protect loss of public funds against possible embezzlement and/or malfeasance.

## **SECTION XIV – DIVERSIFICATION**

A. The purpose of diversification is to reduce overall portfolio risks while attaining benchmark average rates of return. The City of Ankeny will diversify its portfolio by security type. With the exception of U.S. Treasury securities, no more than 50 percent of the total investment portfolio will be invested in a single security type. The Finance Director will invest in securities with varying maturities. Certificates of deposit will be limited to the amount approved by City Council for each financial institution in accordance with Chapter 12C of the Code of Iowa. Commercial paper is limited as per Section IX.6 of this policy.

## **SECTION XV – MAXIMUM MATURITIES**

A. Investments of the City must have maturities that are consistent with the needs and use of the City. To the extent possible, the City of Ankeny will attempt to match its investments with anticipated cash flow requirements.

1. Operating funds are those funds that can be reasonably expended during a current budget year or within fifteen months of receipt. These funds may only be invested in instruments that mature within three hundred ninety-seven (397) days or less and are authorized by this investment policy. Operating funds must be identified and distinguished from all other funds available for investment. (Section 12B.10A, Code of Iowa).
2. Non-operating funds are those funds that are not required for operations, such as bond proceeds or reserves. These funds may be invested for longer than three hundred ninety-seven (397) days (Section 12B.10A(3), Code of Iowa). These maturities shall coincide as nearly as possible with the expected use of the funds. The City of Ankeny will keep these investments to a duration not to exceed seven (7) years.

## **SECTION XVI – INTERNAL CONTROL**

A. The Finance Director is responsible for establishing and maintaining an internal control structure to ensure that the assets of the City of Ankeny are protected from loss, theft, or misuse. An annual and independent review by an external auditor will be conducted to assure compliance with policies and procedures.

## **SECTION XVII – PERFORMANCE STANDARDS**

A. The City of Ankeny's investment strategy is passive. Given this strategy, the basis used by the Finance Director to determine whether market yields are being achieved shall be to identify comparable benchmarks to the portfolio's investment duration. The portfolio is benchmarked to the applicable treasuries constant maturities rate as reported by the Federal Reserve.



## **SECTION XVIII – REPORTING**

A. The Finance Director shall provide the City Council a monthly investment report that provides a clear picture of the status of the current investment portfolio. The monthly report will include the following:

1. A listing of individual securities held at the end of the reporting period by fund type.
2. Each security will detail issuer, purchase date, maturity date, coupon rate, par value, interest/dividends received, and yield to maturity.
3. Total value of securities held by investment type and by financial institution.

## **SECTION XIX – INVESTMENT POLICY ADOPTION AND DELIVERY**

A. The City of Ankeny's Investment Policy is required by Section 12B.10B, Code of Iowa, and approved by City Council. The policy will be reviewed annually by the Finance Director and any modifications made thereto must be approved by the City Council.

B. This policy shall be delivered to all of the following:

1. The City Council and all investment staff of the City of Ankeny.
2. All depository institutions or fiduciaries for public funds of the City of Ankeny.
3. External auditors for the City of Ankeny.
4. Brokers/dealers who conduct trades with the City of Ankeny.
5. Financial advisors of the City of Ankeny.

## APPENDIX A

### GLOSSARY

**ACCRUED INTEREST:** The accumulated interest payable on a security since the last interest payment made by the issuer.

**AGENCY:** A debt security issued by a federal or federally sponsored agency. Federal agencies are backed by the full faith and credit of the U. S. Government. Federally sponsored agencies (FSAs) are backed by each particular agency with a market perception that there is an implicit government guarantee. An example of a federal agency is the Government National Mortgage Association (GNMA). An example of an FSA is the Federal National Mortgage Association (FNMA).

**AMORTIZATION:** The systematic reduction of the amount owed on a debt issue through periodic payments of principal.

**ASKED:** The price at which securities are offered.

**BASIS POINT:** A unit of measurement used in the valuation of fixed-income securities equal to 1/100 of 1 percent of yield, e.g., "1/4" of 1 percent is equal to 25 basis points.

**BENCHMARK:** A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investment.

**BID:** The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

**BOOK ENTRY:** An electronic system of accountability, custody, transfer, and settlement of securities. Book-entry systems allow rapid and accurate transfers of securities with simultaneous cash settlement.

**BOOK VALUE:** The value at which a security is carried on the inventory lists or other financial records of an investor. The book value may differ significantly from the security's current value in the market.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CALLABLE BOND:** A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

**CALL PRICE:** The price at which an issuer may redeem a bond prior to maturity. The price is usually at a slight premium to the bond's original issue price to compensate the holder for loss of income and ownership.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a certificate. Large-denomination CDs are typically negotiable.

**COLLATERAL:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

**COMMERCIAL PAPER:** An unsecured short-term promissory note issued by corporations, with maturities ranging from 2 to 270 days.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report for the City. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed statistical section.

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

**CREDIT QUALITY:** The measurement of the financial strength of a bond issuer. This measurement helps an investor to understand an issuer's ability to make timely interest payments and repay the loan principal upon maturity. Generally, the higher the credit quality of a bond issuer, the lower the interest rate paid by the issuer because the risk of default is lower. Credit quality ratings are provided by nationally recognized rating agencies.

**CREDIT RISK:** The risk to an investor that an issuer will default in the payment of interest and/or principal on a security.

**CURRENT YIELD (CURRENT RETURN):** A yield calculation determined by dividing the annual interest received on a security by the current market price of that security.

**DEBENTURE:** A bond secured only by the general credit of the issuer.

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U. S. Treasury Bills.

**DIVERSIFICATION:** Dividing investment funds among a variety of securities offering independent returns.

**DURATION:** A measure of the timing of the cash flows, such as the interest payments and the principal repayment, to be received from a given fixed-income security. This calculation is based on three variables; term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

**FAIR VALUE:** The amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**FEDERAL CREDIT AGENCIES:** Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&Ls, small business firms, students, farmers, farm cooperatives, and exporters.

**FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**FEDERAL FUNDS (Fed Funds):** Funds placed in Federal Reserve banks by depository institutions in excess of current reserve requirements. These depository institutions may lend Fed funds to each other overnight or on a longer basis. They may also transfer funds among each other on a same-day basis through the Federal Reserve banking system. Fed funds are considered to be immediately available funds.

**FEDERAL FUNDS RATE:** The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district bank.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC):** Established to help maintain the availability of mortgage credit for residential housing. Participation is in the conventional loan market.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The Central Bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D. C., 12 regional banks and about 5,700 commercial banks that are members of the system.

**FIDUCIARY:** Person, company, or association holding assets in trust of a beneficiary.

**FUTURES CONTRACT:** Agreement to buy or sell a specific amount of a commodity or financial instrument at a particular price on a stipulated future date.

**INVERTED YIELD CURVE:** A chart formation that illustrates long-term securities having lower yields than short-term securities. This configuration usually occurs during periods of high inflation coupled with low levels of confidence in the economy and a restrictive monetary policy.

**INVESTMENT-GRADE OBLIGATIONS:** An investment instrument suitable for purchase by institutional investors under the prudent person rule. Investment-grade is restricted to those obligations rated BBB or higher by a rating agency.

**INVESTMENT POLICY:** A concise and clear statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

**MARK-TO-MARKET:** The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

**MARKET RISK:** The risk that the value of a security will rise or decline as a result of changes in market conditions.

**MARKET VALUE:** The price at which a security is trading and could presumably be purchased or sold.

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase---reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

**OPTION:** Right to buy or sell property that is granted in exchange for an agreed upon sum. If the right is not exercised after a specified period, the option expires and the option buyer forfeits the money.

**PORTFOLIO:** Collection of securities held by an investor.

**PRIMARY DEALER:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of

New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state---the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity.

**REINVESTMENT RISK:** The risk that a fixed-income investor will be unable to reinvest income proceeds from a security holding at the same rate of return currently generated by that holding.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

**SEC RULE 15C3-1:** See Uniform Net Capital Rule.

**SECONDARY MARKET:** A market made for the purchase and sale of outstanding issues following the initial distribution.

**SECURITIES & EXCHANGE COMMISSION:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SPECULATION:** Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**SWAP:** Trading one asset for another.

**TOTAL RETURN:** The sum of all investment income plus changes in the capital value of the portfolio. For mutual funds, return on an investment is composed of share price appreciation plus any realized dividends or capital gains. This is calculated by taking the following components during a certain time period.

$$(\text{Price Appreciation}) + (\text{Dividends Paid}) + (\text{Capital Gains}) = \text{Total Return}$$

**TREASURY BILLS:** A non-interest bearing discount security issued by the U. S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities of more than ten years.

**TREASURY NOTES:** Medium-term coupon-bearing U. S. Treasury securities issued as direct obligations of the U. S. Government and having initial maturities from two to ten years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**VOLATILITY:** A degree of fluctuation in the price and valuation of securities.

**WEIGHTED AVERAGE MATURITY (WAM):** The average maturity of all the securities that comprise a portfolio. According to SEC rule 2a-7, the WAM for SEC registered money market mutual funds may not exceed 90 days and no one security may have a maturity that exceeds 397 days.

**WHEN ISSUED (WI):** A conditional transaction in which an authorized new security has not been issued. All “when issued” transactions are settled when the actual security is issued.



**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price for the security. (b) **NET YIELD** or **YIELD TO MATURITY** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

**YIELD CURVE:** A graphic representation that depicts the relationship at a given point in time between yields and maturity for bonds that are identical in every way except maturity. A normal yield curve may be alternatively referred to as a positive yield curve.

**YIELD-TO-CALL (YTC):** The rate of return an investor earns from a bond assuming the bond is redeemed (called) prior to its nominal maturity date.

**YIELD-TO-MATURITY:** The rate of return yielded by a debt security held to maturity when both interest payments and the investor's potential capital gain or loss are included in the calculation of return.

**ZERO-COUPON SECURITIES:** Security that is issued at a discount and makes no periodic interest payments. The rate of return consists of a gradual accretion of the principal of the security and is payable at par upon maturity.

**APPENDIX B**  
**BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION**

1. Name of Firm \_\_\_\_\_

2. Local Address	National Headquarters
_____	_____
_____	_____
_____	_____
_____	_____

3. Local Telephone Number(s), Toll-Free Number(s)

\_\_\_\_\_

4. Primary Representative/Manager/Partner-in-Charge

Name _____	Name _____
Title _____	Title _____

5. Is the firm a primary or regional dealer in U. S. Government Securities, as designated by the Federal Reserve of New York, qualifying under S.E.C. Uniform Net Capital Rule 15c3-1?

Primary \_\_\_\_ Yes \_\_\_\_ No      Regional \_\_\_\_ Yes \_\_\_\_ No

If yes, how long has the firm been a primary dealer? \_\_\_\_\_ years

If yes, how long has the firm been a regional dealer? \_\_\_\_\_ years

6. Is the firm a commercial bank or an NASD member affiliate of a bank chartered under the laws of one of the United States?

\_\_\_\_ Yes      Chartered under laws of the State of \_\_\_\_.

\_\_\_\_ No

If yes, are the bank customers' deposits insured by the Federal Deposit Insurance Corporation?

\_\_\_\_ Yes \_\_\_\_ No

7. Place an "X" by each regulatory agency that your firm is examined by and/or subject to its rules and regulations.

\_\_\_\_\_ FDIC    \_\_\_\_\_ SEC    \_\_\_\_\_ NYSE    \_\_\_\_\_ Comptroller of Currency

\_\_\_\_\_ Federal Reserve System

\_\_\_\_\_ Other (Example: State Regulatory Agency) Multistate firms please note: It is not necessary to include regulatory agencies which do not have jurisdiction over your firm's activities in Local Government Jurisdiction.

8. Is the firm licensed to sell securities in the State of Iowa?

\_\_\_\_\_ Yes    \_\_\_\_\_ No

9. Is/are the person(s) designated to service the City's account licensed to sell securities in the State of Iowa?

\_\_\_\_\_ Yes    \_\_\_\_\_ No

10. Is the firm a member of the Federal Reserve System? \_\_\_\_\_ Yes    \_\_\_\_\_ No

11. What was the firm's approximate total retail volume in U. S. Treasury and Agency securities last year?

Firm wide        \$ \_\_\_\_\_        # of Transactions        \_\_\_\_\_

Local Office     \$ \_\_\_\_\_        # of Transactions        \_\_\_\_\_

12. Identify personnel who will be trading with or quoting prices of securities to our government.

Name        \_\_\_\_\_        Title        \_\_\_\_\_

Name        \_\_\_\_\_        Title        \_\_\_\_\_

13. Fully disclose the method in which you would be compensated for your services.

14. Please identify the firm's most directly comparable public sector clients in our geographical area.

Entity _____	Contact Person _____
Telephone # _____	Client since _____

Entity _____	Contact Person _____
Telephone # _____	Client since _____

15. Place an "X" in the block next to each of the instruments set forth below in which you make an active market (both buy and sell).

_____ T-Bills	_____ T Notes/Bonds
_____ Commercial Paper	_____ Bank CDs
_____ FNMAs	_____ FHLMCs
_____ Other Federal Agencies (Please specify) _____	
_____ Instrumentalities (Please specify) _____	

16. Does your firm specialize in any of the instruments listed above? If so, please specify which ones.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

17. Have any of your public sector clients ever reported to the firm, its officers or employees, that they sustained a loss (in a single year) exceeding ten percent of original purchase price on any individual security purchased through the firm?

Explain \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

18. Has the firm ever been subject to a regulatory or state/federal agency investigation for alleged improper, fraudulent, disreputable, or unfair activities related to the sale of securities?

Explain \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

19. Who audits the fiduciary systems of the firm's custody and delivery processes?

\_\_\_\_\_

20. Has the firm consistently complied with the Federal Reserve's Capital Adequacy Standard?      \_\_\_\_\_ Yes      \_\_\_\_\_ No

21. Has the firm's capital position ever fallen short of the Capital Adequacy Standard?  
\_\_\_\_\_ Yes      \_\_\_\_\_ No

22. What portfolio information do you require from your clients?

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23. What reports, confirmations, documents and audit trail will we receive?

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24. Approximately how many and what percentage of the firm's transactions failed last month?

\_\_\_\_\_ # transactions      \_\_\_\_\_%

Last year?

\_\_\_\_\_ # transactions      \_\_\_\_\_%

25. Describe the precautions taken by the firm to protect the interest of the public when dealing with governmental agencies as investors.

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26. Please supply the following:

A. The firm's most recent audited annual financial report.

B. Proof of the firm's designation by the Federal Reserve Bank of New York as a "primary securities dealer" OR Proof of FDIC coverage.

- C. Proof of individual's (assigned to service the City's account) State of Iowa securities sales license.
- D. Proof of the firm's State of Iowa securities sales license.

**CERTIFICATION**

*I hereby certify that sales personnel assigned to the City of Ankeny, Iowa account have received and read a copy of the City's Investment Policy. For each transaction, we pledge to exercise due diligence in disclosing all information necessary for each party to agree to the details of the transaction. When recommending a transaction, we will have reasonable grounds for believing the transaction is suitable based upon information available from the issuer and based upon the facts disclosed by the City of Ankeny, Iowa, or otherwise known about such customer. We have implemented investment procedures and a system of controls designed to preclude imprudent investment activities arising out of transactions conducted between our firm and the City of Ankeny, Iowa. I attest to the accuracy of our responses to the questionnaire.*

Signed \_\_\_\_\_ Date \_\_\_\_\_

Title \_\_\_\_\_